annual report 1978

DU PONT
CANADA

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Company Profile

Du Pont of Canada Limited manufactures and markets films and other packaging materials, man-made fibres, explosives, automotive and industrial finishes, plastics and industrial chemicals. The Company also imports and resells chemicals and allied products. It serves a broad range of markets in the agricultural, building trades, chemicals, chemical specialties, apparel and home furnishings, plastics processing, pulp and paper, rubber, mining, graphic arts, automotive and construction industries. A wholly-owned subsidiary is engaged in mineral exploration in Canada. An extensive research and development operation supports Du Pont of Canada's position as an innovative manufacturer and marketer. The Company has more than 20 plants and offices in Canada, and exports to more than 60 countries.

Notice

A Special General Meeting and the 68th Annual General Meeting of Shareholders will be held at the Head Office of the Company, 555 Dorchester Blvd. West, Montreal, Quebec on Friday, 27th April 1979 at 12:00 noon.

Nous serons heureux de vous envoyer,
sur demande, l'édition française de ce rapport.

FINANCIAL HIGHLIGHTS

	1978	1977	% Change
SALES (Dollars in thousands)	$661 851	$534 479	24
NET INCOME (Dollars in thousands)	$ 10 236	$ 7 622	34
SELLING PRICE INDEX			
Manufactured Products (1969 = 100)	148	141	5
CONSTRUCTION EXPENDITURES (Dollars in thousands)	$ 10 674	$ 16 679	(36)
RESULTS PER COMMON SHARE			
FUNDS FROM OPERATIONS	$6.17	$4.86	27
EARNINGS			
By Quarter First	$0.26	$0.17	
Second	0.54	0.61	
Third	0.24	0.04	
Fourth	0.24	0.12	
Total for the year	$1.28	$0.94	
DIVIDENDS DECLARED	$ —	$ —	
SHAREHOLDERS' EQUITY	$22.93	$21.66	6

DIRECTORS

Joseph A. Dallas
Director,
E. I. du Pont de Nemours & Company

A. Jean de Grandpré, Q.C.
Chairman and Chief Executive Officer, Bell Canada

David S. Holbrook
Consultant, Iron and Steel Industry

*D. Carlton Jones
President, Carlton Resource Management Limited

John A. Klacsmann
Vice-President — International,
E. I. du Pont de Nemours & Company

*Hon. Donald S. Macdonald, P.C.
Partner, McCarthy & McCarthy, Barristers and Solicitors

Franklin S. McCarthy
Vice-Chairman and Chief Executive Officer,
Petrosar Limited

*Donald S. McGiverin
President and Chief Executive Officer,
Hudson's Bay Company

J. Edward Newall
President and Chief Executive Officer,
Du Pont of Canada Limited

*Robert J. Richardson
Chairman, Du Pont of Canada Limited
Vice-President — Finance,
E. I. du Pont de Nemours & Company

Roy L. Schuyler
Director of the Company

Honorary Director
Herbert H. Lank
Former Director, Chairman and President,
Du Pont of Canada Limited

* Member — Committee on Audit

OFFICERS

Robert J. Richardson
Chairman

J. Edward Newall
President and Chief Executive Officer

Bertalan L. Turvolgyi
Senior Vice-President

Donald A. S. Ivison
Vice-President and
Chief Financial Officer

Colin C. Young
Vice-President and Secretary

Gordon R. Wittman
Vice-President — Corporate Development

Arthur H. Baker
Vice-President —
Operating Services Group

Peter R. Duffield
Vice-President — Fibres Group

Robert C. Finlay
Vice-President — Plastics & Films Group

James O. Torrens
Vice-President — Manufacturing Group

Patrick A. Turner
Vice-President — Chemicals Group

Peter Pick
Treasurer

Paul M. Costello
Assistant Treasurer

Thomas S. Morse
Assistant Treasurer

DIRECTORS' REPORT TO THE SHAREHOLDERS

Substantial gains were achieved in sales volumes and operating efficiencies during 1978. Total sales revenue reached $661 851 000, up 24 per cent from 1977. Higher volumes of shipments in virtually all lines of business accounted for most of the growth in sales revenue, as price increases were modest and were insufficient to offset increased costs and expenses. Export sales were particularly strong and increased 83 per cent over the previous year.

The Company's net income rose to $1.28 per common share, a 34 per cent improvement over 1977. This improvement is a source of some satisfaction; however, our results represent a far-from-adequate return of three per cent on average total investment.

Fibres earnings increased substantially from recent low levels, reflecting strong demand for home furnishings and textile products, and higher exports. Chemicals earnings were also ahead of last year. Earnings from Plastics and Films declined because of higher raw material costs and the impact of a full year's depreciation charges on the expanded polyethylene resin facilities at St. Clair River Works.

Additions to plants and properties totalled $10 674 000, a seven-year low, reflecting virtual completion of the $300 000 000 expansion program begun in 1972.

Regular quarterly dividends were paid on the Company's 7½ per cent cumulative preferred stock. However, because of the high level of Company borrowings and interest expense, no dividend was declared on common shares in 1978.

The environment for manufacturing in Canada continued to improve in 1978. This was due in part to a number of constructive steps taken by government in recent years and in part to the depreciation of the Canadian dollar. The commitment by government to spending restraint, a series of responsible federal budgets — some containing important incentives to stimulate the private sector — and a major effort by the federal government to consult closely with business and labour and respond to their concerns, have had a significant impact on business confidence.

The further depreciation of the Canadian dollar was probably the most important development in 1978 for Du Pont of Canada and for most of our customers. It helped us displace foreign competition in Canada and improved the competitiveness of our products in export markets. During 1978 manufacturers recorded a significant gain in volume of shipments and in new and unfilled orders. As a result, use of capacity reached the highest level since 1974 and investment intentions rose sharply. If Canada succeeds in bringing inflation rates down to more acceptable levels in 1979 and 1980, the manufacturing sector may enjoy an extended period of good growth.

There are also significant negative factors. One is the uncertain outlook for the economy of the United States, Canada's largest export market. The impending referendum on the political future of Quebec is unsettling, both for the Province and for Canada as a whole. High interest rates, a slower growth in housing construction, continuation of a large deficit in the balance of international payments, and the high levels of unemployment are also problems.

In balancing these strengths and weaknesses, we look for growth in gross national product of no more than 3.5 per cent in 1979. Against this background, Du Pont of Canada's growth in sales is expected to be moderate.

Your Directors take pleasure in acknowledging the achievements of employees throughout the Company. Their safety record was outstanding, once again ranking among the very best in Canada. They accomplished significant gains in production and sales. Equally important was their contribution to controlling costs. Cost reductions, especially more efficient utilization of raw materials and energy, had a significant impact on the Company's earnings performance in 1978.

On behalf of the Directors,

President and Chief Executive Officer

2nd March 1979

OPERATIONS REVIEW

MANUFACTURING GROUP

With the major construction programs of the past few years substantially completed, the primary emphasis of the manufacturing organization is on improving plant efficiency.

Excellent results were achieved in the past year. Production volumes rose substantially even though the number of employees declined slightly. Employees in the Manufacturing Group, totalling 4 425 at year-end, represent about 80 per cent of total Company employment. Energy savings totalled $6 000 000 for the 12-month period. Yield improvements — the increases in volumes of products produced per unit of raw material used — also made a significant contribution. These latter two categories accounted for a major part of the total cost savings achieved throughout the Company in 1978.

FIBRES GROUP

Strong demand for nylon staple fibre and bulked continuous filament nylon yarn for the carpet market played a major role in the improved overall results of the Fibres Group. More than 70 per cent of the carpet produced in Canada in 1978 was made of nylon. The Company undertook an extensive TV advertising program to explain the benefits of carpeting as floor coverings in residential and commercial buildings. Although the domestic demand for carpet was only modestly higher, production increased as Canadian mills displaced imports and increased exports.

Market conditions in the apparel industry improved steadily in 1978. The lower dollar and the temporary sales tax reductions helped. The major factor, however, was the adoption by Canada of trade policies more consistent with those practised by other developed nations. As a direct result, demand for ORLON acrylic fibre, and for our textile nylon, DACRON polyester and LYCRA spandex yarns, was stronger. Prices for both ORLON and DACRON remained depressed for most of the year due to competition from foreign producers with substantial excess capacity.

Results from the sale of tire and industrial yarn were about the same as last year. Shipments improved during the latter half of the year, aided by strong export demand.

The Company, along with other firms in the textile and clothing industries, has consistently maintained that the long-range future of these industries depends on achieving a business climate that encourages investment. As a result, the Company welcomes the government's action in negotiating bilateral comprehensive agreements — covering yarn, fabrics and clothing — intended to replace the clothing and textile quotas, which expired at the end of 1978. These agreements may allow Canadian producers to win the kind of domestic market base which similar arrangements provide for their U.S. and European competitors. If administered effectively, these agreements will provide more stable conditions for textile and clothing manufacturers and their more than 185 000 employees.

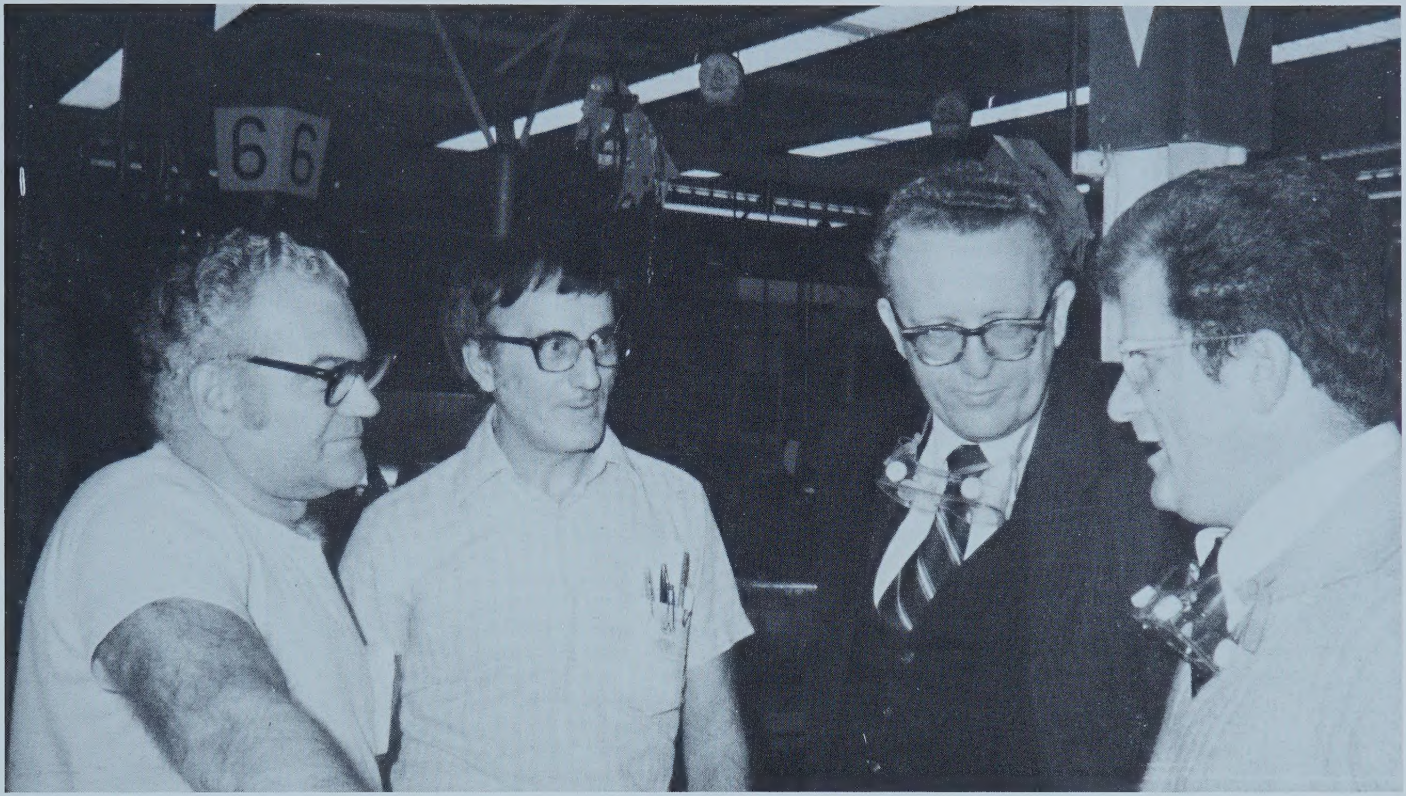
PLASTICS AND FILMS GROUP

Plastics

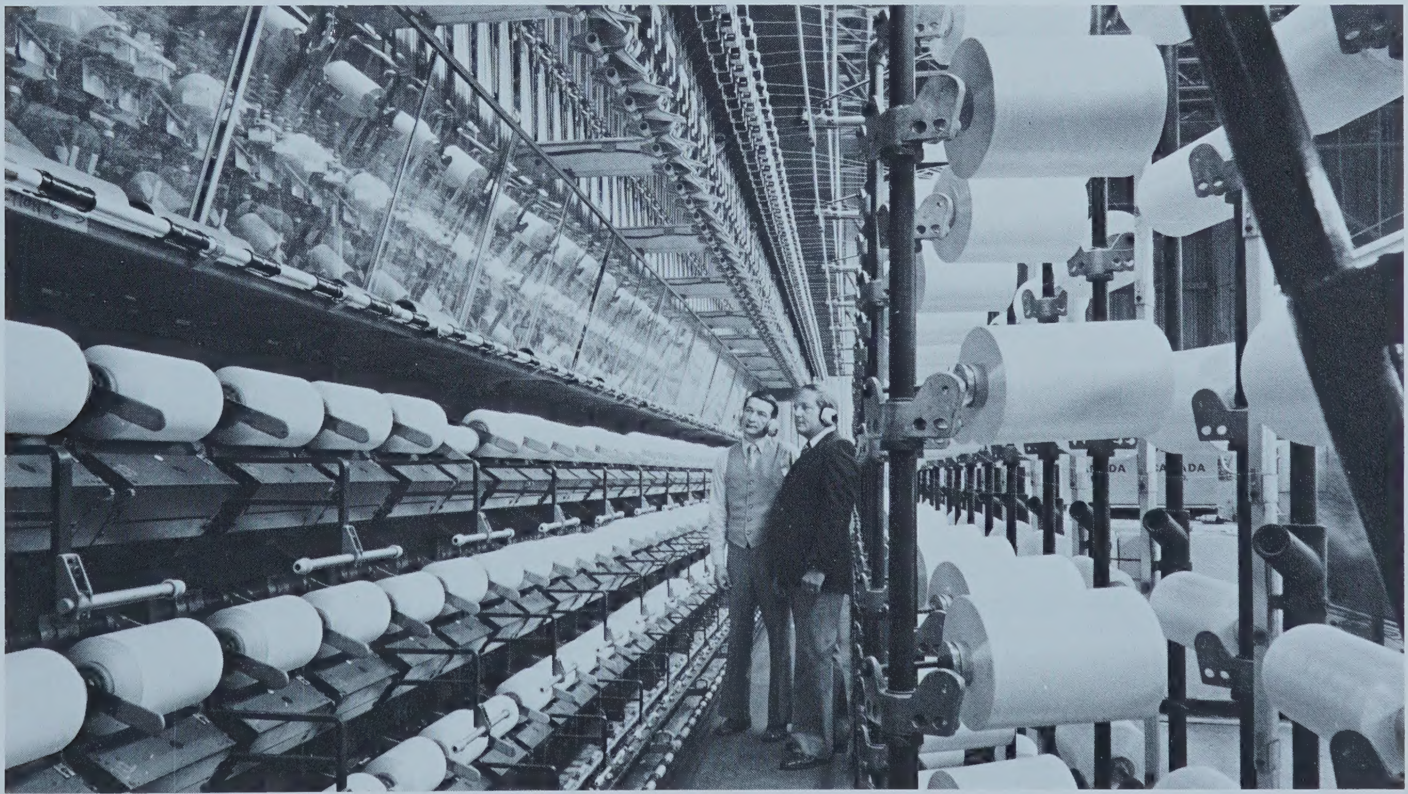
Sales of polyethylene resins increased substantially over the previous year, reflecting higher domestic shipments and significantly increased exports.

Profit margins, however, declined sharply. Higher depreciation charges and higher costs, particularly for energy and feedstocks, could not be recovered through higher selling prices due to intense price competition, primarily from producers located in the United States. Du Pont of Canada welcomed the federal government's decision to postpone crude oil and natural gas price increases scheduled for 1st January 1979. The Company strongly supports the proposal that in scheduling future price increases more consideration be given to the state of the economy and the ability of specific industry sectors to absorb increases in energy and feedstock costs.

The world-wide market for SCLAIR polyethylene resins continues to grow at a satisfactory rate as the Company and its customers develop new uses for these products. Over the past several years, hundreds of types of containers formerly made of metal, wood or glass have been converted to polyethylene and this trend



President J. E. Newall congratulates Shawinigan Works employees, who won their sixth President's Safety Award in November. From left: Camille Perron, finishing; Jean-Claude Cloutier, foreman, finishing; Mr. Newall and Yvon Choquette, works manager. The Company's more than 5 400 employees completed 1978 with one of the best records in industry — only two lost-time on-the-job injuries.



Better conditions in the textile and clothing industries contributed to improved results of Du Pont of Canada in 1978. Plant manager Bernard Bergeron, left, and Du Pont of Canada sales representative Ron Wright are shown in Texturon Yarns Limited plant, Hawkesbury.

continues. One of the most significant current developments is the rapid growth in demand for packaging films made from high density polyethylene in applications where strength, durability and minimum weight are important. These films are replacing paper in packaging of food, notion, novelty, and many other retail items.

Petrosar Limited's world-scale petrochemical complex started production late in 1977 and began commercial operations in April 1978. Petrosar supplied most of St. Clair River Works' ethylene requirements in 1978 as well as some of the Company's fuel needs at other locations.

Polyethylene Pipe

Through much of the year sales of large-diameter pipe were depressed because of lower spending by mining companies and municipalities, our major customers. Demand began to improve late in the year.

Higher sales were achieved for SCLAIRCOR pre-insulated piping systems, recently developed by the Company. These systems help reduce construction costs in many applications as the piping can be laid on the surface of the ground or in shallow trenches rather than having to be buried below the frost line.

Woven Polyolefins

Increased sales volume and a highly effective cost reduction program combined to achieve much improved results from this business.

This product is a fabric woven from tapes of either polyethylene or polypropylene film. It serves a wide variety of markets ranging from carpet-backing to grain bins and swimming pool covers.

Packaging

Sales revenue from packaging films increased by eight per cent. A major objective here is to find applications where the unique clarity, strength and processing qualities of SCLAIRFILM polyolefin film give significant competitive advantages. Canadian dairies, for example, have adopted polyethylene film pouches for more than half of their production of packaged consumer milk. There are attractive prospects for further growth in milk packaging in the United States and we are making a concentrated effort to develop that large market.

Nylon film sales were up substantially, mainly in export markets; here again, this product is used primarily in high quality applications, such as processed meats (bacon, wieners) and primal cuts of meats.

Although world-wide demand for cellulose film has been declining for several years and the outlook for this product remains poor, the market improved temporarily in 1978 because producers in some countries withdrew from manufacture.

CHEMICALS GROUP

Explosives

Slow business conditions in the heavy construction and mining industries reduced the market for explosives in Canada in 1978. As a result, despite a substantial increase in export shipments, total sales remained about the same as in 1977.

In Canada, three new bulk explosives plants were installed during the year, including one at Rabbit Lake, Saskatchewan. This was the first time the Company had installed a bulk unit at a uranium mine.

Following successful initial tests in 1977, development activity continued on the first water-gel explosive designed especially for oil and gas exploration. Commercial introduction of ENERGEX water-gel seismic explosive in November 1978 marked an important advance in explosives technology.

Finishes

Earnings improved reflecting stronger demands in all three market segments, new automotive, automotive repair or refinish, and industrial applications.

A recently-introduced acrylic enamel, sold under the trademark CENTARI, proved popular in the refinish trade.

Sales representative Jean Bourgeois, Du Pont of Canada, left, discusses refinishing techniques with an employee of Barnabé Motors Limited, Montreal. Paint products are produced at Ajax Works.

Hundreds of articles are made from polyethylene resins produced at St. Clair River Works. Here a few of these articles are displayed at a Canadian trade show.

Petroleum Chemicals

The market for petroleum additives is declining, mainly because of the increasing percentage of automobiles requiring unleaded gasoline. As a result of the shrinking market earnings of the Division declined.

Fluorocarbon Products

The market for fluorocarbons as propellants continued on a downward trend, mainly as a result of the controversy over fluorocarbons' potential impact on stratospheric ozone. Customers made voluntary reductions in the use of these products in aerosols in response to government's concern. Other markets have been showing promise, however, particularly those involving the use of fluorocarbons in insulation and fire-protection products, and in refrigeration and air-conditioning units.

General Products

This business unit sells a wide range of products manufactured by E. I. du Pont de Nemours & Company.

Significant gains were achieved in sales of agricultural chemicals, photo products, chemicals and pigments. The Company's range of chemicals for the control of weeds, insects and fungus diseases is receiving increasing acceptance from Western Canadian farmers, for whom BENLATE fungicide and LOROX and LEXONE weed killers are particularly effective.

In total, sale of resale products increased by 28 per cent in 1978.

CORPORATE MATTERS

Employees

Superior performance by our employees significantly assisted the Company to achieve major gains in production and sales volumes.

Control of costs at manufacturing plants, including major savings in energy, has been referred to elsewhere in this report. Our people in marketing and auxiliary organizations achieved comparable gains in productivity. Selling, general and administrative expenses as a percentage of total sales revenue have been reduced from 12.4 per cent to 8.2 per cent over the course of the past five years.

On-the-job safety performance was outstanding and continued to rank among the very best in Canada. In 1978, as in 1977, only two employees suffered lost-time injuries at work, a rate of less than one lost-time injury for every five million working hours. A noteworthy development was the decline in the number of employees who lost work time because of off-the-job accidents. There were 140 such accidents in 1978 compared with 162 in 1977.

Late in the year the Company announced the introduction of a dental assistance program, effective 1st January 1979. Financed entirely by the Company, the plan pays a substantial portion of the cost of non-cosmetic dental treatment for employees and their families.

More than 680 retired employees were receiving Company pensions at the end of 1978. At year-end an independent trustee held $116 828 000 in an irrevocable trust to meet future pension payments under the Company-financed plan.

Mineral Exploration

Mineral exploration carried out by Du Pont of Canada Exploration Limited, a wholly-owned subsidiary, is essentially a long-range diversification activity.

The most significant project to date is a lead-zinc deposit near Pine Point Mines in the Northwest Territories, where the Company is carrying out a joint program with Western Mines Ltd. Work during the year increased the indicated reserve of this deposit

to 5.7 million tons, an increase of 1.9 million tons over 1977. At the end of 1978, a significant additional deposit was discovered, which will add to this reserve.

Research

Our businesses receive research and development support from a team of skilled scientists, most of whom are located at our modern laboratories in Kingston, Ontario. Experimental pilot plant and product evaluation facilities are used for developing new products and new processes. Recently, most of our research programs have been aimed at improving the competitiveness of existing businesses. Significant gains have been achieved.

Environmental Matters

Concern with environmental matters extends far beyond workplace safety and health, where our record is well known; programs also cover the quality and safety of products, the water and air around manufacturing plants and the handling and transportation of materials.

Du Pont of Canada believes strongly that effective solutions to environmental problems depend on close industry-government co-operation. As a result, representatives have met frequently with governments to discuss appropriate means of achieving environmental goals.

Directors and Officers

At the April 1978 Annual General Meeting of Shareholders, Donald S. McGiverin, President and Chief Executive Officer of Hudson's Bay Company, was elected a director, filling the vacancy caused by the decision of Henry J. Hemens, Q.C., a former Vice-President and Secretary of the Company, not to stand for re-election. The Hon. Donald S. Macdonald, P.C., a partner in the legal firm of McCarthy & McCarthy, was elected to the Board of Directors at a Special General Meeting of Shareholders held in August 1978.

Franklin S. McCarthy, who retired at the end of November after more than 43 years of service, resigned as President and Chief Executive Officer effective 31st August 1978, to accept a position as Vice-Chairman and Chief Executive Officer of Petrosar Limited. He continues as a Director of Du Pont of Canada Limited.

J. Edward Newall was elected President and Chief Executive Officer and Bertalan L. Turvolgyi was appointed Senior Vice-President.

During the year, Gordon R. Wittman was appointed Vice-President, Corporate Development, succeeding J. Herbert Childs who had elected to retire, and Paul M. Costello was appointed an Assistant Treasurer.

Effective 1st January 1979, five new Vice-Presidents, reporting to the Senior Vice-President, were appointed with Group responsibilities within the Operating Department as follows: Arthur H. Baker, Operating Services; Peter R. Duffield, Fibres; Robert C. Finlay, Plastics & Films; James O. Torrens, Manufacturing; and Patrick A. Turner, Chemicals.

Effective 5th March 1979, Donald A. S. Ivison, formerly Vice-President and Treasurer, was appointed Vice-President and Chief Financial Officer. Peter Pick, an Assistant Treasurer since 1975, was appointed Treasurer.

General

At the Meeting of Shareholders to be held on 27th April 1979, shareholders will be asked to authorize the Board of Directors to apply for a certificate of continuance under the Canada Business Corporations Act, to amend certain articles of the Company's letters patent, and to adopt revised by-laws. At the same meeting, it will be proposed that the Company's name be changed to Du Pont Canada Inc., a form which will be common to both official languages of Canada.

FINANCIAL REVIEW

Sales and Earnings

The growth in net sales revenue continued to accelerate in 1978 with an increase of 24 per cent over 1977, as sales totalled $661 851 000. The increase was due principally to higher volumes in almost every product line combined with a modest rise in prices. Export sales increased sharply and accounted for 16 per cent of manufactured sales revenue compared with 11 per cent last year. Resale of products imported mainly from E. I. du Pont de Nemours & Company continued to account for about one quarter of total sales.

Net income was $10 236 000 or $1.28 per common share compared with $7 622 000 or $0.94 per common share in 1977.

The Company's index of prices of purchased raw materials and energy increased 5.9 per cent during the year while the increase in the index of selling prices of Company products was limited to 4.7 per cent.

Earnings before interest expense and income taxes were $41 007 000 compared with $32 720 000 in 1977.

Depreciation expense of $29 126 000 was $2 883 000 higher than in 1977 and included a full year's depreciation on the expanded facilities at St. Clair River Works which began operating in mid-1977. Selling, general and administrative expenses rose 12 per cent but represented only 8.2 per cent of sales compared with 9.1 per cent in 1977. Higher interest rates in both Canada and the United States, and an increased level of short-term borrowings through most of the year, resulted in a $2 977 000 increase in interest expense over the previous year.

Earnings were adversely affected by provision made for a potential foreign exchange loss of $6 057 000 on $30 000 000 of U.S. dollar long-term debt maturing in 1979.

Financing and Working Capital

Funds from operations amounted to $48 849 000 in 1978 compared with $38 516 000 in 1977. After payment of dividends on preferred shares, funds provided in 1978 were equivalent to $6.17 per common share.

Long-term debt dropped from $154 517 000 to $125 000 000 as a result of the transfer of U.S. $30 000 000 of notes maturing in 1979 to current liabilities.

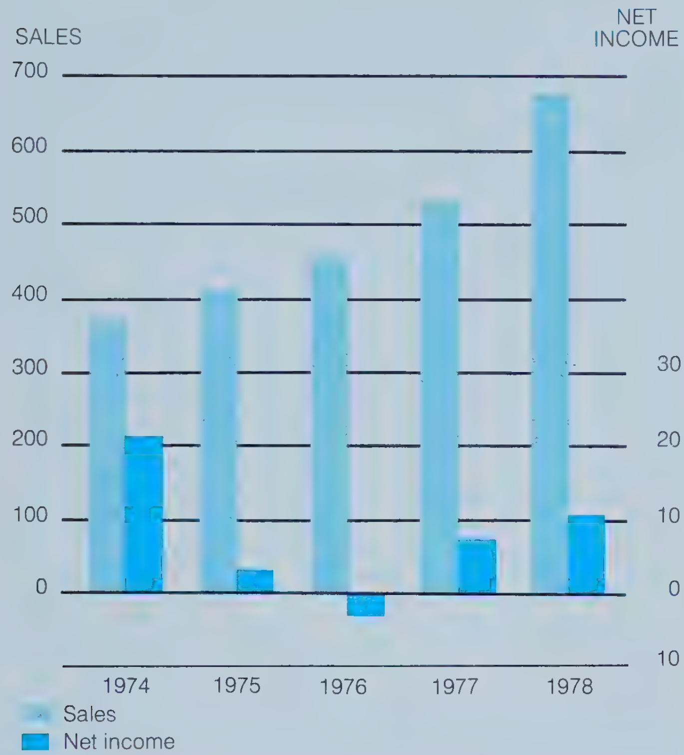
Short-term Canadian dollar loans from E. I. du Pont de Nemours & Company were reduced during 1978 from $60 000 000 to $30 000 000. A change in the interest rate differential between Canada and the United States late in the year made it economical to finance more of the Company's short-term requirements in the domestic commercial paper market.

Additions to plants and properties of $10 674 000 were at a seven-year low and consisted mainly of expenditures on projects related to safety, environmental protection and maintenance of existing facilities. The unexpended balance of authorized projects amounted to $9 015 000 at year-end.

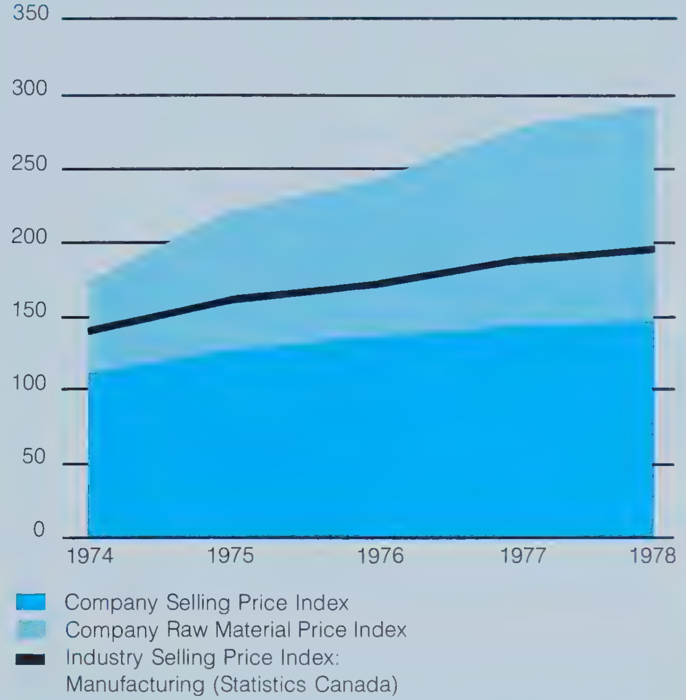
An additional $7 128 000 was invested in Petrosar Limited to assist it in meeting its working capital covenants and dividend requirements. Purchases of ethylene and other chemicals from Petrosar have been well in excess of the minimum levels for which the Company has contracted.

Working capital was $36 415 000 at year-end, down $2 589 000 from a year ago. Investment in accounts receivable and inventories increased by $25 715 000 to accommodate the higher sales level. Current liabilities, including long-term debt maturing in 1979, increased by $31 724 000.

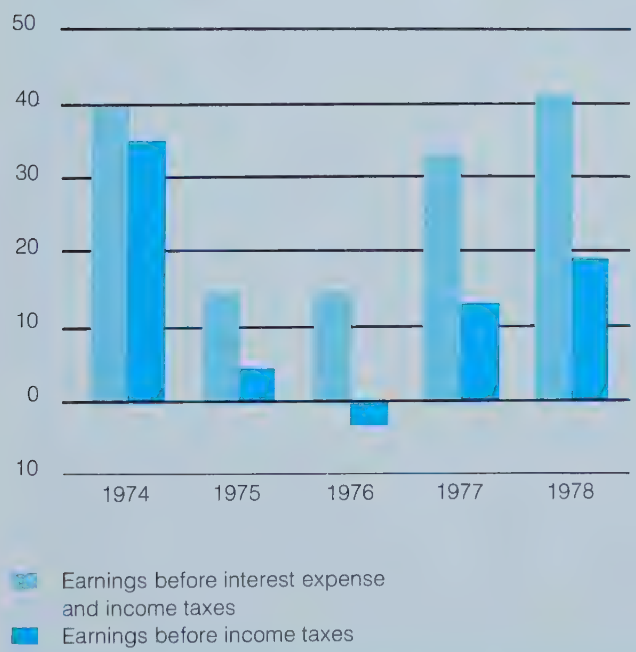
SALES AND NET INCOME
(millions of $)



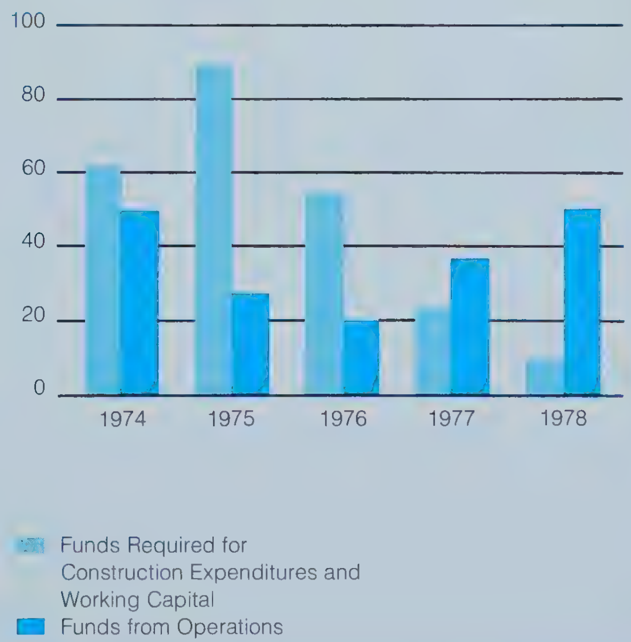
PRICE INDICES
(1969 = 100)



EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES
(millions of $)



FUNDS REQUIRED AND FUNDS FROM OPERATIONS
(millions of $)



Inflation and Financial Results

Inflation distorts financial statements prepared using "generally accepted accounting principles", because the historic costs used to determine inventory values, costs of goods sold, and depreciation of fixed assets fall far short of the current costs of replacing inventories or renewing operating facilities. The impact of inflation on a corporation is seen in rapidly rising cash requirements to maintain operations, and often in limitations on funds available for expansion or distribution to shareholders.

Despite the fact that the accounting profession has not yet developed "generally accepted principles" to deal with this problem, there is growing recognition that information on the impact of inflation is extremely relevant and useful to readers of financial statements. The proposals of the Ontario Committee on Inflation Accounting are a constructive contribution to this issue. The Committee has recommended presentation of this information in the form set out in the next column to indicate the effect of rising prices on funds available for distribution or expansion. Although the numbers are based on indices and are therefore not precise, they illustrate the extent to which conventional financial statement presentation may overstate the real ability of a company to generate funds for dividends and growth.

Impact of Inflation on Funds Available for Distribution or Expansion

(Dollars in millions) Unaudited

	1978
Funds generated from operations (see Consolidated Statement of Changes in Financial Position, page 15)	$49
Less: Funds required to finance original cost of productive assets (historical cost depreciation)	29
Funds available for distribution or expansion based on historical cost	20
Deduct: Impact of Inflation	
Funds required to finance increased cost of maintaining operating capacity:	
Inventories*	4
Plant, machinery, and equipment**	12
	16
Less: Additional funds which may be available from borrowings***	7
Impact of Inflation	9
Funds available for distribution or expansion after allowing for the impact of inflation	$11

*The increased cost of replacing inventories ($4 million) represents the difference between the historical cost and the estimated current cost of goods sold at the date of sale.

**The increased cost of maintaining the operating capacity of productive assets ($12 million) represents the difference between the depreciation taken in the accounts and depreciation for the year determined after applying indices to arrive at current cost of the assets, using the business investment component of the Gross National Expenditure Implicit Price Index.

***The extent to which additional funds may be available from borrowings ($7 million) is based on the ratio of equity to non-equity capital at the beginning of the accounting period on the assumption that this ratio is maintained.

DU PONT
CANADA

Financial Statements

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF INCOME

(Dollars in thousands except per common share)

Year Ended 31st December	1978	1977
NET SALES (Note 1)	$661 851	$534 479
Other income	766	3 073
	662 617	537 552
LESS:		
Costs and expenses before the following:	530 625	428 378
Provision for depreciation of plants and properties	29 126	26 243
Amortization of patents and processes	224	228
Adjustment to carrying value of mining ventures	1 121	1 323
Selling, general and administrative expenses	54 457	48 660
Exchange on long-term debt due within one year (Note 7)	6 057	—
Interest on debt issued for terms in excess of one year (Note 3)	16 370	15 186
Interest on other indebtedness	6 028	4 235
	644 008	524 253
EARNINGS BEFORE INCOME TAXES	18 609	13 299
Less: Income taxes	8 373	5 677
NET INCOME	$ 10 236	$ 7 622
EARNINGS PER COMMON SHARE	$1.28	$0.94

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

Year Ended 31st December	1978	1977
SOURCE OF FUNDS		
From operations		
Net income	$ 10 236	$ 7 622
Adjustment for items not requiring outlay of funds:		
Depreciation and amortization	29 350	26 471
Adjustment to carrying value of mining ventures	1 121	1 323
Deferred income taxes	8 421	5 662
Accrued interest income on loan to Petrosar	(279)	(2 562)
	48 849	38 516
USE OF FUNDS		
Additions to plants and properties	10 674	16 679
Investments and advances	11 073	15 445
Reduction in long-term debt (Note 7)	29 517	—
Dividends	174	174
	51 438	32 298
Increase (decrease) in working capital for the year	(2 589)	6 218
Working capital at beginning of year	39 004	32 786
Working capital at end of year	$ 36 415	$ 39 004

DU PONT OF CANADA LIMITED

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)

31st December	1978	1977
ASSETS		
Current Assets		
Cash	$ 6 097	$ 2 731
Accounts receivable:		
Customers and others	102 566	83 590
Affiliated companies	5 452	3 366
Income taxes recoverable	—	667
Inventories:		
Finished goods and work in process	53 297	47 679
Raw materials and supplies	21 064	21 362
Prepaid expenses	2 203	2 149
	190 679	161 544
Plants and Properties (Note 4)	531 020	527 898
Less: Accumulated Depreciation	265 070	243 496
	265 950	284 402
Other Assets		
Petrosar Limited (Note 5)	46 838	39 431
Mining ventures (Note 6)	4 833	4 671
Goodwill, patents and processes	3 648	3 872
Unamortized portion of long-term debt expenses	1 418	1 701
Sundry	4 510	1 565
	61 247	51 240
	$517 876	$497 186

Signed on behalf of the Board:

D. C. Jones
J. E. Newall } Directors

31st December	1978	1977
LIABILITIES		
Current Liabilities		
Short-term indebtedness:		
E. I. du Pont de Nemours & Company	$ 30 000	$ 60 000
Bank and other	24 231	10 348
Accounts payable and accrued liabilities:		
E. I. du Pont de Nemours & Company	14 392	16 311
Other	46 959	32 410
Taxes payable	3 065	3 428
Dividends payable	43	43
Current portion of long-term debt (Note 7)	35 574	—
	154 264	122 540
Long-Term Debt (Note 7)	125 000	154 517
Deferred Income Taxes	55 426	47 005
SHAREHOLDERS' EQUITY		
Capital stock		
Preferred 7½% cumulative stock, par value $50		
Authorized, issued and fully paid — 46 500 shares	2 325	2 325
Common stock, no par value		
Authorized — 13 500 000 shares		
Issued and fully paid — 7 886 298 shares	40 031	40 031
Retained earnings	140 830	130 768
	183 186	173 124
	$517 876	$497 186

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Dollars in thousands)

	1978	1977
BALANCE AT BEGINNING OF YEAR	$130 768	$123 320
Add: Net income	10 236	7 622
	141 004	130 942
Less: Dividends declared on preferred 7½% cumulative stock	174	174
BALANCE AT END OF YEAR	$140 830	$130 768

AUDITORS' REPORT

The Shareholders
Du Pont of Canada Limited

We have examined the consolidated balance sheet of Du Pont of Canada Limited as at 31st December 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31st December 1978 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
2nd March 1979

Touche Ross & Co.
Chartered Accountants

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

Du Pont of Canada Limited is incorporated under the laws of Canada and the consolidated financial statements, based on historic cost, are drawn up in conformity with the provisions of the Canada Corporations Act. Subsidiary companies are all wholly owned but only Du Pont of Canada Exploration Limited is active. Mining ventures are valued at cost adjusted for write-offs and amortization of exploration expenditures. The investment in Petrosar Limited is being carried at cost.

Translation of Foreign Currencies

Net current assets in foreign currencies are translated into Canadian dollars at rates in effect at the end of each year. Other assets and liabilities and income and expense items are translated at the rates prevailing on transaction dates. Gains and losses on translation are included in income.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Plants and Properties and Related Depreciation

Plants and properties are carried at cost. Pre-production expenses and interest on borrowed money incurred in connection with new production facilities are charged to expense as incurred.

Depreciation is provided based on the average useful life of assets. Using the diminishing balance method, rates of 12% or 10% are applied to the net investment at each plant site, provided that amounts set aside in the accounts are not less than 5% of the original cost. Thus the provision for depreciation is higher in the early life of the assets when the risk is greatest. The relatively small investments in other properties are depreciated at various rates. Generally, depreciation is not charged on new assets until they become operative. When assets are retired, sold or otherwise disposed of, the gross book value and dismantling costs are charged to accumulated depreciation; any recovery is credited to accumulated depreciation.

Goodwill, Patents and Processes

Goodwill was acquired prior to 1974 and is not amortized. Purchased patents and processes are amortized over their economic life.

Research and Development

Research and development expenditures are charged against current year's income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Net Sales

The composition of net sales is as follows:

	1978	1977
	(Dollars in thousands)	
Fibres	$240 030	$186 836
Plastics and Films	199 194	174 010
Chemicals and Other	222 627	173 633
	$661 851	$534 479

Note 2 — Remuneration of Directors and Officers

During 1978, the remuneration paid to the eleven directors aggregated $57 000 and paid to the ten officers (including one past officer) aggregated $874 000. Three of these officers were also directors.

Note 3 — Interest on Borrowed Money

In connection with the construction of Les Usines Coteau, a provincial government agency has agreed to contribute to interest costs to a maximum of $4 000 000 of which $960 000 was credited to interest expense in 1977 and the balance in prior years.

Note 4 — Plants and Properties

	1978	1977
	(Dollars in thousands)	
Buildings and equipment and other facilities	$456 251	$455 702
Construction in progress	70 246	67 646
Land	4 523	4 550
	$531 020	$527 898

At 31st December 1978, $9 015 000 remained unexpended on authorized appropriations for capital expenditures.

Of construction in progress at 31st December 1978, $62 302 000 is attributed to Les Usines Coteau. The plant has not begun operations and is not being depreciated.

Note 5 — Petrosar Limited

The Company has a 20% equity interest in Petrosar Limited, a world-scale petrochemical complex near Sarnia, Ontario. The other equity shareholders are Polysar Limited, which together with the Canada Development Corporation, holds a 60% equity interest and Union Carbide Canada Limited which holds a 20% equity interest.

In February 1978, Petrosar refinanced its indebtedness by issuing redeemable preference shares of three classes in exchange for existing debt obligations. Class A preference shares were acquired by a consortium of Canadian banks, and are entitled to quarterly dividends at a floating rate related to bank prime lending rates. Class B and C preference shares, subordinated in all respects to the shares held by the banks, were acquired by equity shareholders.

While initial production at Petrosar started late in 1977, commercial operations began only in April 1978. For the nine months ended 31st December 1978 Petrosar had an operating deficit of approximately $800 000.

Under various agreements with certain shareholders of Petrosar and with its bankers, the Company has committed to provide Petrosar Limited with funds to meet 21.6% of any deficiency for working capital or dividend requirements on the Class A preference shares. During the year the Company acquired Class B preference shares under this commitment at a cost of $7 128 000. The Class C preference shares were acquired by the Company in exchange for the previously held subordinated debt and accrued interest thereon.

At year-end, the Company's investment in Petrosar Limited consisted of:

	1978	1977
	(Dollars in thousands)	
Common shares	$10 000	$10 000
Subordinated debt	—	26 480
Accumulated interest on subordinated debt	—	2 951
Class B preference shares	7 128	—
Class C preference shares	29 710	—
	$46 838	$39 431

The Company is also committed under long-term contracts to purchase ethylene and other chemical products from Petrosar or otherwise indemnify that company.

Note 6 — Mining Ventures

	1978	1977
	(Dollars in thousands)	
Investments in and advances to mining companies (at cost less amounts written-off)		
— Lacana Mining Corporation	$3 591	$3 591
— Ducanex Resources Limited	41	36
Expenditures on direct participation in other mining ventures (net of accumulated amortization 1978 — $5 011 000; 1977 — $3 890 000)	1 201	1 044
	$4 833	$4 671

The Company's investment in Lacana Mining Corporation, consisting of 16.4% of the outstanding common shares, has a market value of $6 887 000 based on the last transaction price on The Toronto Stock Exchange on 29th December 1978. Lacana has outstanding a bank term loan which the Company has guaranteed up to $3 000 000 if Lacana is unable to repay on maturity because of expropriation or legislated sale or a similar event affecting its Mexican interests.

Ducanex Resources Limited is a private company owned jointly by the Company and Lacana Mining Corporation.

Expenditures on direct participation in other mining ventures reflect exploration activities by Du Pont of Canada Exploration Limited and by a joint venture with Lacana.

Note 7 — Long-Term Debt

	1978	1977
	(Dollars in thousands)	
8% Note — U.S. $5 000 000 due 1st February 1979	$ 4 852	$ 4 852
$10^3/_8$% Notes — U.S. $25 000 000 due 15th November 1979	24 665	24 665
	29 517	29 517
Exchange on long-term debt due within one year	6 057	—
	35 574	29 517
Less: Amount due within one year	35 574	—
	—	29 517
$9^1/_2$% Notes due 15th February 1981	50 000	50 000
$10^1/_2$% Sinking Fund Debentures due 1st May 1995	75 000	75 000
	$125 000	$154 517

Sinking fund provisions of the debentures require the Company to make payments to the trustee sufficient to retire $3 000 000 principal amount on 1st May in each of the years 1980 to 1994 inclusive.

Note 8 — Pension Liabilities

Pensions provided to former employees under the Company's non-contributory Pension Plan are based on length of service and average annual earnings in the employee's five best years. The Company's contributions are made to an irrevocable trust fund held by an independent trustee.

As at the 31st December 1978, the amount held by the independent trustee exceeded the actuarially determined value of pensions payable to pensioners and earned by employees to that date.

The last formal actuarial evaluation of the Company's non-contributory Pension Plan was made as of 31st December 1976. That evaluation disclosed an estimated unfunded liability of $16 300 000 representing the past service portion of potential pension liabilities based on individual service and remuneration projected to those future years when payments of individual pensions are expected to commence, plus the cost of increased benefits granted existing pensioners in 1975. In 1977, a further increase in benefits to existing pensioners created an additional unfunded liability of $2 200 000.

These unfunded liabilities are being amortized by annual payments over periods not exceeding 15 years as recommended by the Company's consulting actuary and as permitted by The Pension Benefits Act of the Province of Ontario.

Note 9 — Pending Legal Proceedings

Various lawsuits and claims are pending against the Company. It is the opinion of Company counsel that the ultimate liability, if any, resulting from such lawsuits and claims will not materially affect the financial position of the Company.

Note 10 — Income Taxes

Income tax benefits relating to the federal investment tax credit are included in income when claimed. At 31st December 1978, potential income tax benefits not recorded in income amounted to $4 200 000.

Note 11 — Anti-Inflation Act

The Company was subject to the anti-inflation legislation until 31st December 1978. It is management's opinion that the legislation was adhered to.

TEN-YEAR COMPARISON

	1978	1977	1976
Operating Results			
Results per common share			
Total earnings (loss)	$1.28	$0.94	$(0.29)
Funds from operations	$6.17	$4.86	$2.52
Dividends	—	—	$0.20
Sales and other income	662 617	537 552	458 832
Costs and expenses before the following:	591 139	477 038	421 813
Provision for depreciation, amortization and other (1)	30 471	27 794	23 471
Interest on borrowed money	22 398	19 421	16 551
Taxes on income	8 373	5 677	(861)
Extraordinary items	—	—	—
Net income (loss)	10 236	7 622	(2 142)
Per cent return on:			
Average total investment (2)	3.0	2.6	1.1
Average shareholders' equity	5.7	4.4	—
Financial Position			
Total current assets	190 679	161 544	133 624
Total current liabilities	154 264	122 540	100 838
Net working capital	36 415	39 004	32 786
Plants and properties at cost	531 020	527 898	521 023
Accumulated depreciation	265 070	243 496	227 057
Plants and properties — net	265 950	284 402	293 966
Other assets	61 247	51 240	34 784
Long-term debt	125 000	154 517	154 517
Deferred income taxes	55 426	47 005	41 343
Shareholders' equity	183 186	173 124	165 676
General			
Company selling price index —manufactured products (1969 = 100)	148	141	136
Construction expenditures	10 674	16 679	65 793
Average total investment (3)	759 796	714 239	657 197
Shareholders' equity per common share	$22.93	$21.66	$20.71
Average number of employees	5 408	5 473	5 713
Average total investment per employee	140.4	130.5	115.0

(1) Includes adjustment to the carrying value of mining ventures beginning in 1972.

(2) Based on net income before interest expense.

(3) Total investment is based on total assets before deducting accumulated depreciation; the average is based on the investment of each calendar month.

(Amounts in thousands of dollars except where otherwise noted)

1975	1974	1973	1972	1971	1970	1969
$0.23	$2.62	$2.17	$1.72	$1.32	$0.63	$1.99
$3.32	$6.22	$5.14	$3.94	$3.21	$2.58	$3.82
$0.50	$1.00	$0.95	$0.85	$0.625	$0.75	$1.00
410 810	369 025	307 954	260 737	228 333	211 398	228 532
376 854	311 681	258 913	218 384	190 810	184 682	184 999
19 862	17 726	16 766	16 385	15 673	15 357	15 636
10 217	4 658	2 160	629	1 058	2 635	1 315
557	15 157	12 847	11 609	10 184	3 561	13 517
1 295	(994)	—	—	—	—	(2 785)
2 025	20 797	17 268	13 730	10 608	5 163	15 850
1.4	5.0	4.6	3.9	3.2	1.9	5.1
1.2	12.2	11.0	9.2	7.6	3.7	11.7
139 024	124 837	91 768	83 294	68 583	74 114	70 770
93 312	80 841	55 594	35 566	32 995	46 806	43 723
45 712	43 996	36 174	47 728	35 588	27 308	27 047
458 592	375 610	333 293	292 891	275 532	272 313	262 347
208 155	191 758	183 511	170 291	158 000	146 389	133 936
250 437	183 852	149 782	122 600	117 532	125 924	128 411
20 191	12 844	11 235	10 604	9 822	5 035	3 739
104 517	29 517	10 000	10 000	—	—	—
42 253	39 513	28 266	21 608	20 471	21 301	21 305
169 570	171 662	158 925	149 324	142 471	136 966	137 892
129	114	92	90	92	97	100
87 542	53 177	42 948	20 360	7 504	12 867	16 216
546 238	465 738	402 816	362 321	347 829	344 881	324 723
$21.21	$21.47	$19.86	$18.64	$17.77	$17.07	$17.19
5 734	5 746	5 538	5 113	5 158	6 311	6 562
95.3	81.1	72.7	70.9	67.4	54.6	49.5

PRODUCTS LISTING

FIBRES

MANUFACTURED:

Nylon continuous filament yarns, staple, tow and bulked continuous filament yarns

† *ANTRON nylon for textiles and carpets*

† *ORLON acrylic fibre, staple and tow*

† *LYCRA spandex fibre*

† *DACRON polyester filament yarn*

† *HYTEN wrapped filament yarn*

• *FIBRELOFT synthetic discontinuous filaments*

RESALE:

* *NOMEX high temperature resistant nylon*

* *TEFLON fluorocarbon fibre*

* *DACRON polyester staple*

* *KEVLAR aramid fibre*

* *CORDURA yarn*

* *DACRON *HOLLOFIL polyester*

* *SERELL air textured polyester yarns*

* *QIANA nylon*

PLASTICS AND FILMS

MANUFACTURED:

• *CELLOPHANE cellulose film*

• *SCLAIRFILM and • SUPERLAM polyolefin film*

• *DARTEK nylon film*

• *FABRENE woven oriented polyolefin material*

• *PERFIL fibrillated polyolefin tape*

• *ANCHOR-BAC woven oriented polyolefin carpet backing*

† *VEXAR plastic netting*

Nylon monofilament

• *SCLAIR polyethylene resins*

† *ZYTEL nylon resins*

• *SCLAIRPIPE polyethylene pipe*

† *ALDYL polyethylene piping systems*

• *SCLAIRCOR pre-insulated piping systems*

RESALE:

* *MYLAR polyester film*

* *KAPTON polyimide film*

* *TEDLAR PVF film*

* *TYPAR spunbonded polypropylene carpet backing*

Liquid packaging machines

Plastic materials for molding and extrusion including:

† *ALATHON polyolefin resins*

* *DELRIN acetal resins*

* *LUCITE acrylic resins*

* *MINLON mineral reinforced polymers*

* *RYNITE thermoplastic polyester resins*

* *SURLYN ionomer resins*

* *TEFLON fluorocarbon resins*

Polymers for adhesives and coatings including:

* *ELVACE polymer emulsions*

* *ELVACITE acrylic resins*

* *ELVAMIDE nylon resins*

* *ELVANOL polyvinyl alcohol*

* *ELVAX vinyl resins*

† *DYMETROL nylon strapping*

† *STREN nylon fishing line*

* *BUTACITE polyvinyl butyral sheet for safety glass*

* *VESPEL precision parts from polyimide resins*

CHEMICALS AND OTHER PRODUCTS

MANUFACTURED:

† *FREON fluorocarbon refrigerants, aerosol propellants, industrial solvents, blowing agents and fire extinguishing agents*

† *DYTEL leak detectives*

Antiknock compounds and other petroleum additives

† *VALCLENE dry-cleaning fluid*

† *ALBONE hydrogen peroxide*

Protective and decorative finishes for automotive and industrial uses including:

† *IMRON polyurethane finishes*

• *DULUX enamels*

† *CENTARI acrylic enamel*

† *LUCITE acrylic lacquer*

† *SILVERSTONE non-stick finishes*

† *TEFLON non-stick finishes*

Commercial explosives including:

• *ENERGEX water gel seismic explosive*

† *TOVEX water gels*

† *NILITE and † TOVITE blasting agents, and • COR-DET primers*

Hydrochloric, nitric and adipic acids

RESALE:

Ammonium nitrate prills and blasting accessories; dynamites

* *DETAPRIME primers*

* *DETASHEET flex explosives*

Smokeless powders

* *FASLOC resin-anchored bolting systems*

* *CYREL, *DYCRIL and *LYDEL photo-polymer printing plates and equipment*

* *CROMALIN photopolymer film, toners and equipment*

Graphic arts, engineering reproduction and drafting films, and equipment

*Electronic products — *RISTON photopolymer film resists and equipment, precious metal preparations, and Berg interconnectors*

Scientific and Process Instruments

Automatic Clinical Analyzer

* *CRONEX X-ray films and equipment*

* *HYTREL polyester elastomer*

* *VAMAC ethylene acrylic elastomer*

*Neoprene, *NORDEL, *HYPALON, *ADIPRENE and *VITON synthetic rubbers*

Pigments

Dyes and organic chemicals

* *ZEPEL rain and stain repeller*

* *REEMAY spunbonded polyester, *TYVEK spunbonded olefin, *TYPAR spunbonded polypropylene and *SONTARA spunlaced fabric*

Industrial chemicals and electroplating products

* *DEXLAR flexible acrylic enamel*

* *ZELCON fabric conditioner*

* *TEFLON carpet protector*

Chemical intermediates

* *HYVAR, *KARMEX, *KROVAR, *LEXONE, *LOROX, *SINBAR, and *VELPAR weed killers*

* *BENLATE, *MANZATE 200, and *TERSAN fungicides*

* *LANNATE and *MARLATE insecticides*

* *HYDAN feed supplement*

Programmed instruction courses

TRADE MARK IDENTIFICATION

† Trade Mark of E. I. du Pont de Nemours & Company under which Du Pont of Canada Limited is a Registered User.

* Trade Mark of E. I. du Pont de Nemours & Company.

• Trade Mark of Du Pont of Canada Limited.

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Corunna, Ontario N0N 1G0

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Shawinigan, Quebec G9N 6W6

WHITBY WORKS
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(under construction)
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CUSTOMER TECHNICAL CENTRE

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STOCK LISTINGS

Common Stock —
Montreal Stock Exchange
Toronto Stock Exchange

Preferred Stock —
Montreal Stock Exchange

STOCK TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal, Toronto, Calgary and Vancouver

DEBENTURE TRANSFER AGENT AND REGISTRAR

The Royal Trust Company
Montreal

Royal Trust Corporation
of Canada
Toronto, Winnipeg, Calgary
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